



BEFORE THE ARIZONA CORPORATION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

JUL 30 2013

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

DOCKETED BY
nr

IN THE MATTER OF THE APPLICATION OF
VAIL WATER COMPANY FOR A
DETERMINATION OF THE FAIR VALUE OF ITS
UTILITY PLANT AND PROPERTY AND FOR AN
INCREASE IN ITS RATES AND CHARGES
BASED THEREON.

DOCKET NO. W-01651B-12-0339

DECISION NO. 73995

OPINION AND ORDER

DATE OF HEARING:

May 7, 2013

PLACE OF HEARING:

Tucson, Arizona

ADMINISTRATIVE LAW JUDGE:

Jane L. Rodda

APPEARANCES:

Michael Hallam and Matthew Bingham,
LEWIS AND ROCA, LLP, for Vail
Water Company; and

Brian E. Smith and Bridget A.
Humphrey, Staff Attorneys, Legal
Division for the Arizona Corporation
Commission Utilities Division.

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the
Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

I. History and Background

A. Procedural History

1. On June 27, 2012, Vail Water Company ("VWC" or "Company") filed with the
Arizona Corporation Commission ("Commission") an application for a rate increase ("Rate
Application").

2. On August 21, 2012, VWC filed an Amendment to the Rate Application affecting

1 portions of Schedule H-3 (Rates).

2 3. On August 27, 2012, the Commission's Utilities Division ("Staff") notified the
3 Company that its Rate Application was sufficient under the guidelines outlined in the Arizona
4 Administrative Code ("A.A.C.") R14-2-103, and classified the utility as Class B.

5 4. By Procedural Order dated September 7, 2012, procedural deadlines were established
6 and the matter was set for hearing to commence on May 7, 2013.

7 5. On October 12, 2012, VWC filed Affidavits of Publication and Mailing, indicating
8 that the public notice of the hearing in this matter was published in the *Arizona Daily Star* on
9 September 21, 2012, and was mailed to all customers on October 1, 2012.

10 6. On February 25, 2013, Staff filed the Direct Testimony of Jeffrey Michlik, John
11 Cassidy and Marlin Scott, Jr.

12 7. On March 25, 2013, VWC filed the Rebuttal Testimony of Thomas Bourassa, Kara
13 Festa and Christopher Volpe.

14 8. On April 10, 2013, Staff filed a Notice of Settlement Discussions.

15 9. On April 11, 2013, Staff filed an unopposed Motion for Extension of Time to File
16 Surrebuttal Testimony. Staff reported that settlement discussions were set to commence on or after
17 April 16, 2013. In order to promote settlement discussions, Staff requested a one-week extension,
18 until April 22, 2013, to file its Surrebuttal Testimony. The extension was granted by Procedural
19 Order dated April 15, 2013.

20 10. On April 18, 2013, Staff filed a Second Motion for Extension of Time to File
21 Surrebuttal Testimony. Staff reported that settlement discussions were on-going and yielding
22 significant progress. Staff requested until April 24, 2013, to file its Surrebuttal Testimony. The
23 request was granted by Procedural Order dated April 19, 2013.

24 11. On April 24, 2013, in a telephonic conference, VWC and Staff requested another
25 extension of time to file Staff's Surrebuttal Testimony. The parties reported that as of April 24, 2013,
26 they were close to finalizing a Settlement Agreement which they hoped to docket by April 25, 2013.
27 Because the settlement would resolve all of the issues raised in this case, they asserted that Staff's
28 Surrebuttal Testimony would not be relevant or necessary.

12. By Procedural Order dated April 24, 2013, it was ordered that in the event that the parties were able to file a Settlement Agreement by April 26, 2013, the remaining schedule for filing testimony (*i.e.*, Staff's Surrebuttal Testimony and VWC's Rejoinder Testimony) would be vacated, and instead both parties would file Testimony in Support of the Settlement Agreement by May 3, 2013. In the event the parties were not able to file a Settlement Agreement by April 26, 2013, the deadline for Staff to file Surrebuttal Testimony was extended to April 26, 2013, and the deadline for VWC to file Rejoinder Testimony was extended until May 3, 2013.

13. On April 26, 2013, Staff filed a Notice of Settlement Agreement, attaching a Proposed Settlement Agreement between the Company and Staff dated April 26, 2013 ("Settlement Agreement").

14. On May 3, 2013, Staff filed a Notice of Filing Proposed Plan of Administration ("POA") and Example Computation of CAP ("Central Arizona Project") Surcharge.

15. The Pre-hearing Conference convened on May 2, 2013, as scheduled, to discuss hearing procedures.

16. On May 3, 2013, VWC filed Christopher Volpe's Testimony in Support of Settlement Agreement, and Staff filed the Testimony of L. John LeSueur in Support of the Settlement Agreement.

17. The Hearing convened on May 7, 2013, before a duly authorized Administrative Law Judge. Mr. Volpe and Mr. Bourassa testified for the Company, and Mr. LeSueur testified for Staff.

18. On May 9, 2013, Staff filed an amended version of the Settlement Agreement and POA as discussed at the Hearing.¹ A copy of the complete Amended Settlement Agreement and Amended POA for the CAP Surcharge are attached hereto as Exhibit A.

B. Company Background

19. VWC is certificated to provide water utility service in an area of Pima County southeast of the City of Tucson ("City" and "Tucson").

20. In the test year ended December 31, 2011, VWC provided water service to

¹ On June 26, 2013, Staff filed a Second Notice of Filing Amended Settlement Agreement and Amended Plan of Administration. This filing included the "Example Computation of CAP Surcharge," an exhibit to the POA, that was inadvertently omitted from the May 9, 2013 filing.

1 approximately 3,900 customers.

2 21. VWC's current rates were set in Decision No. 62450 (April 14, 2000).

3 22. VWC is a Subchapter S corporation.²

4 23. One of the issues in the 2000 rate case was whether the Company should be allowed to
5 recover the costs of its CAP water allocation from ratepayers.³ In prior years, the Commission denied
6 recovery of the CAP costs from ratepayers on the grounds it was not "used and useful" because the
7 Company did not have the means to deliver and use the CAP allocation in its service territory. In the
8 2000 rate case, the Company proposed to join a replenishment district which would allow it to
9 recharge the CAP water and receive recharge credits which it could use to offset its pumping of
10 groundwater within its service area. The Company indicated that the recharge program would allow
11 VWC to obtain a Designation of Assured Water Supply. In the 2000 rate case, the Commission
12 agreed that it was important for VWC to retain its CAP allocation as long as the CAP water is
13 eventually delivered to the VWC service area.

14 24. Thus, in Decision No. 62450, the Commission adopted Staff's proposal for a CAP
15 Hook-up Fee and CAP Service Charge of \$0.32 per 1,000 gallons, the proceeds of which were to be
16 segregated and used solely for CAP expenses, including costs associated with the CAP allocation and
17 costs of eventually delivering CAP water to VWC's service area. At that time, the Commission
18 determined to treat the CAP Hook-up Fee as revenue as it was received (in lieu of booking it as a
19 deferred credit).⁴ VWC was ordered to deposit the CAP Hook-up Fees and CAP Service Charge in a
20 segregated interest bearing account to be used solely for CAP-related expenses.⁵ Funds in excess of
21 annual expenses associated with the CAP allocation were to be applied to capital projects related to
22 developing a delivery system for the direct use of CAP water in VWC's service area or refunded to

23
24 ² The parties' schedules include an allowance for income tax expense in compliance with Commission Tax Allowance Policy adopted on February 12, 2013.

25 ³ In 2000, VWC had a CAP allocation of 786 acre feet. Currently VWC's CAP allocation is for 1,857 acre feet. *See* Transcript of May 7, 2013 Hearing ("Tr.") at 46.

26 ⁴ Decision No. 62450 at 10.

27 ⁵ An entity like VWC with a CAP subcontract pays two basic charges related to its allocation: 1) a CAP Municipal and Industrial capital charge that it pays semi-annually whether it takes delivery of the water or not which covers repayment of the cost of constructing the canal (known as the "M&I" charge); and 2) a charge for the annual CAP operating maintenance and replacement costs ("OM&R" or "delivery charges") based on actual CAP water deliveries and estimated expenses for the upcoming year. The OM&R charges are paid when the entity takes delivery.

1 customers. VWC was also required to submit annual reports detailing all deposits and expenditures
2 from the CAP account. In addition, the Commission ordered that: 1) "Final plans for the direct use of
3 CAP water within Vail's service territory are to be submitted to the Commission no later than
4 December 31, 2010;" and 2) "Vail must directly use the CAP allocation within its service territory by
5 December 31, 2015."⁶

6 25. VWC did not submit final plans for the direct use of CAP water in its service area by
7 December 31, 2010. On December 1, 2011, the Commission voted to reopen the 2000 rate case to
8 determine: 1) a plan for the direct use of CAP water in VWC's service area; 2) whether funds
9 collected from CAP Hook-up Fees and the CAP Service Charge should be refunded; 3) whether the
10 Company should be assessed penalties for failing to comply with Decision No. 62450; and 4)
11 whether to grant the Company's request for an extension of the deadline in Decision No. 62450 to
12 file Final Plans for the direct use of CAP water.⁷ While it was deciding how to address these issues,
13 the Commission suspended the CAP Hook-up fee and CAP Service Charge.

14 26. In Decision No. 73218, the Commission adopted a Settlement Agreement entered into
15 between VWC and Staff in which the Commission reaffirmed its support of VWC's direct use of
16 CAP water in VWC's service area as contemplated in Decision No. 62450. The Commission
17 discontinued the \$0.32 per 1,000 CAP Service Charge, but re-instated the CAP Hook-up fees. It was
18 agreed that on or before July 31, 2012, VWC would file a rate case, and that as part of that rate case,
19 VWC would propose a surcharge to address costs relating to the CAP Project in order to avoid the
20 need for filing another rate case immediately after the July 2012 rate case. The Commission extended
21 the deadline for filing the Final Plans for the direct use of CAP water in VWC's service territory until
22 June 30, 2013, and authorized VWC to use funds in the existing CAP segregated account in the
23 manner intended by Decision No. 62450, including, but not limited to "permit, design, engineer and
24 construct and/or acquire plant and equipment necessary to have CAP water delivered to its water
25 system and to pay for on-going CAP M&I and delivery charges, legal fees, and costs associated with
26 recharging water."⁸ The Commission did not impose a penalty or fine as a result of the Company's

27 ⁶ Decision No. 62450 at 15.

28 ⁷ See Decision No. 73218 (June 5, 2012).

⁸ Decision No. 73218 at Settlement Agreement ¶ 2.6.

1 failure to file the Final Plans by December 31, 2010, subject to VWC meeting the June 30, 2013
2 deadline.⁹

3 27. VWC filed the Final Plans for the direct use of CAP water in its service territory on
4 April 18, 2013.¹⁰

5 28. At the time of the Hearing in this matter, it was expected that the City of Tucson
6 would approve the wheeling agreement with VWC in June 2013.¹¹

7 29. VWC expects to be providing CAP water in its service area pursuant to the wheeling
8 agreement with the City of Tucson no later than the end of 2015.¹²

9 30. VWC has no delinquent Commission compliance issues.¹³

10 31. VWC has an approved curtailment tariff and an approved backflow prevention tariff
11 on file with the Commission.¹⁴

12 32. The Arizona Department of Environmental Quality ("ADEQ") has determined that
13 VWC's system, PWS No. 10-041, is currently delivering water that meets the water quality standards
14 required by 40 CFR 141 and A.A.C. , Title 18, Chapter 4.¹⁵

15 33. VWC's system is located in the Tucson Active Management Area ("AMA"). The
16 Arizona Department of Water Resources ("ADWR") reported that the Company's system is in
17 compliance with its requirements governing water providers and/or community water systems.¹⁶

18 34. Staff calculated that for the test year, VWC had a water loss of 9.8 percent, based on
19 382,210,000 gallons pumped and 344,580,000 gallons sold. Staff states that the 9.8 percent loss is
20 within the acceptable limit of 10.0 percent. Staff states that the Company should closely monitor its
21 water loss, and recommends that it take action to ensure that water loss remain below 10.0 percent.

22
23 ⁹ VWC planned to enter into a wheeling agreement with the City of Tucson to achieve the goal of using its CAP
24 allocation directly. In 2010, when the Final Plans were due, the City of Tucson was not yet ready to enter into such
wheeling agreement. In 2012, the City entered into a similar arrangement with the Town of Oro Valley and indicated that
it would soon be able to enter into an agreement with VWC as well. See Decision No. 73218.

25 ¹⁰ See Docket Nos. W-01651B-99-0351 and W-01651B-99-0406.

26 ¹¹ Tr. at 7.

27 ¹² Tr. at 52. December 31, 2015, was the deadline established in Decision No. 62450, and reaffirmed in Decision No.
73218, for VWC to be using CAP water in its service territory.

28 ¹³ Ex S-1 Engineering Report at 9.

¹⁴ Ex S-1 Engineering Report at 9.

¹⁵ Ex S-1 Engineering Report at 8.

¹⁶ Ex S-1 Engineering Report at 8.

1 Staff states that if water loss at any time before the next rate case is greater than 10.0 percent, the
2 Company should develop a plan to reduce water loss to less than 10.0 percent, or prepare a report to
3 be docketed in this case, containing a detailed analysis and explanation demonstrating why a water
4 loss reduction to 10 percent or less is not feasible or cost effective.¹⁷

5 35. In Direct Testimony, Staff also recommended that within 90 days of the effective date
6 of the Order, the Company file at least seven Best Management Practices (“BMPs”) in the force of
7 tariffs.¹⁸

8 **II. Rate Request**

9 **A. Pre-Settlement Issues**

10 36. In its Rate Application, VWC sought total operating revenue of \$2,378,860, an
11 increase of \$44,113, or 1.89 percent, over test year revenue of \$2,334,747, to provide an operating
12 income of \$344,528, a 10.40 percent rate of return on its proposed fair value rate base (“FVRB”) of
13 \$4,412,773.¹⁹ VWC also proposed a CAP Surcharge mechanism to recover the costs for direct
14 delivery of CAP water to its service territory.

15 37. In its Direct Testimony, Staff recommended rates that would produce revenues of
16 \$2,191,924, a decrease of \$142,823, or 6.12 percent, from test year revenue of \$2,334,747, to provide
17 operating income of \$201,902, a 9.10 percent return on the Staff-adjusted FVRB of \$2,219,704.²⁰

18 38. Prior to entering into the Settlement Agreement, the parties’ pre-filed testimony
19 revealed several major issues, including how the rate base should reflect the Long-Term Storage
20 Credits (“LTSCs”) generated from recharging CAP water; whether Well No. 6 represented excess
21 capacity and should be excluded from rate base; whether the Company was providing sufficient
22 information to support transactions with affiliated entities; and the cost of capital. Issues with less
23 impact involved accounting for plant retirements, the appropriate purchased water expense to include
24 in base rates (*i.e.*, CAP charges); and a relatively minor disagreement about rate design concerning
25

26 ¹⁷ Ex S-1 Engineering Report at 5.

27 ¹⁸ Ex S-1 Engineering Report at 8.

28 ¹⁹ Ex A-1 Bourassa Dir at Sch A-1. The Company did not file Reconstruction Cost New Less Depreciation Rate Base
schedules, and thus, its Original Cost Rate Base (“OCRB”) is deemed to be its FVRB.

²⁰ Ex S-1 Michlik Dir at 4.

1 the percentage of revenue collected from the monthly minimum versus commodity charges.²¹ In
 2 addition, the parties recommended different CAP Surcharge mechanics and different
 3 recommendations concerning the CAP Hook-up fees.²²

4 39. In its Rebuttal Testimony, the Company revised its revenue requirement to
 5 \$2,256,141, which reflected a \$78,606 decrease (3.37 percent) from test year revenues.²³ The
 6 Company lowered its adjusted operating expenses by \$83,011 and updated its fair value rate of return
 7 to 10.1 percent, on a FVRB of \$3,315,151.

8 1. LTSCs

9 40. In Direct Testimony, Staff recommended a decrease in rate base totaling \$1,094,069.
 10 The adjustment with the greatest impact was Staff's recommended deferred CAP liability of
 11 \$1,104,206, to offset the amount of the LTSCs. The Company accumulates LTSCs when it recharges
 12 more CAP water than it pumps in groundwater.²⁴ At that time, Staff believed that because the LTSCs
 13 were funded by the CAP Hook-up Fees and CAP Service Charge, which are typically "ratepayer
 14 funds," it was appropriate to offset the deferred CAP asset account with a deferred liability account,
 15 similar to the treatment of ratepayer Contributions in Aid of Construction ("CIAC").²⁵ Staff also
 16 adjusted the amount of the LTSC balance to reflect a 5 percent cut to the aquifer that the Company
 17 had not included in its calculations.²⁶

18 41. The Company argued that because in Decision No. 62450, the Commission ordered
 19 that both the CAP Hook-up fees and CAP Service Charges were to be treated as revenues and not as
 20 deferred credits, to treat them as deferred credits now would be inappropriate retroactive
 21 ratemaking.²⁷ According to VWC, because these charges were part of the Company's authorized

22 ²¹ See Ex A-7 Bourassa Reb at 3-6 and 21-24.

23 ²² Ex A-7 Bourassa Reb at 25-28.

24 ²³ Ex A-7 Bourassa Rate Base Reb at 1- 2.

25 ²⁴ When VWC recharges its CAP water, it receives recharge credits, which it then uses to offset its annual groundwater
 26 pumping. Because currently the Company recharges more than it pumps, it generates "excess" credits – referred to as
 Long-Term Storage Credits, which it can use to offset future pumping or sell. The Long-Term Storage Credits are
 recorded at their blended cost, which includes the costs of acquiring, maintaining and recharging the CAP allocation. See
 Tr. at 40.

27 ²⁵ Ex S-1 Michlik Dir at 10-11.

28 ²⁶ Ex S-1 Michlik Dir at 9. Staff's adjustment for the reduction was correct, but the amount should have been \$23,173, not
 \$28,563 as reflected in Staff's Direct Testimony. See A-7 Bourassa Reb at 7. The ADWR adjustment reduces the amount
 of the recharge credit to account for recharged water that is deemed to have seeped back into the aquifer. Tr. at 42-43.

²⁷ Ex A-7 Bourassa Rate Base Reb. at 7-14

1 revenue requirement in the last rate case, they kept base rates lower than they otherwise would have
 2 been. VWC asserts that as revenue, the Company's shareholders paid taxes on the funds, and that the
 3 proceeds were used, like any Company revenue source, to acquire an asset in the form of an
 4 additional CAP allocation and LTSCs, that ultimately benefit ratepayers.

5 **2. Excess Capacity**

6 42. In its Direct Testimony, Staff reduced rate base by \$268,743 to remove plant
 7 associated with Well No. 6 because Staff's calculations indicated that Well No. 6 was "excess
 8 capacity."²⁸

9 43. VWC offered the Rebuttal Testimony of Kara Festa, a Registered Professional
 10 Engineer, who testified to the configuration of VWC's system, which is composed of two systems,
 11 and provided support for why Well No. 6 is not excess capacity.²⁹

12 **3. Affiliate Transactions**

13 44. In its Direct Testimony, Staff noted that VWC has a management contract with TEM
 14 Corp. ("TEM") which is an affiliate of the Company. Staff believed that even though the
 15 Commission's Affiliate Rules (A.A.C. R14-2-801 et al) do not apply to VWC because it is not a
 16 Class A utility, the principles set forth in those rules plus the standards under Generally Accepted
 17 Accounting Principles ("GAAP") are relevant to transactions between VWC and affiliated entities.³⁰
 18 Thus, Staff recommended that VWC use a competitive bid process to obtain outside services in order
 19 to ensure that the Company is obtaining the services at a reasonable cost.³¹ In addition, Staff
 20 expressed concern about the "guesstimated" percentages of time used to allocate TEM employees'
 21 time to VWC for management services. Staff recommended that VWC directly track salary costs
 22 from its affiliate, TEM, by using timesheets.³² Staff also recommended that the Company be directed
 23 to cooperate with Staff and provide information contained in the affiliate's general ledger or in other
 24 records that Staff may need in order to verify costs being sought for recovery.³³

25
 26 ²⁸ Ex S-1 Michlik Dir at 7; Scott Dir and Engineering Report at 6.

²⁹ Ex A-9.

³⁰ Ex S-1 Michlik Dir at 17.

³¹ Ex S-1 Michlik at 19-21.

³² Ex S-1 Michlik Dir at 23.

³³ Ex S-1 Michlik Dir at 24.

45. In its Rebuttal Testimony, VWC asserted that the TEM management fees totaling \$126,683, translates to \$2.73 per customer per month, which the Company argued was reasonable.³⁴ The Company disputed the cost-effectiveness of seeking competitive bids for the TEM services and defended its process for determining the costs to allocate to VWC.

B. Settlement Agreement

46. In the Proposed Settlement Agreement, VWC and Staff agree that:

(a) In the test year, VWC's revenue was \$2,183,759;

(b) That its FVRB is \$3,315,108;

(c) That the FVRB includes deferred LTSCs of \$1,081,028, and that all recharge credits sold by the Company must be priced at a minimum to recover all direct costs of the CAP water, including ADWR's 5 percent cut to the aquifer;

(d) That for ratemaking purposes, the Company's capital structure of 100 percent equity should be used, and that the cost of equity should be 9.1 percent; and

(e) That VWC should be authorized an annual increase in revenue of \$21,480, or 0.98 percent, for an annual revenue requirement of \$2,205,239.³⁵

47. The Settlement Agreement adopts Staff's rate design.

48. The Company agreed that in future rate cases, the Company will obtain timesheets for management services from TEM to support the management fees requested for recovery.

49. The Settlement Agreement also adopts a CAP Surcharge mechanism that will allow the collection of the actual CAP costs as they fluctuate annually. The proposed CAP Surcharge will include the costs of: 1) CAP M&I capital charges; 2) CAP delivery charges ("OM&R"); and 3) wheeling charges from the City of Tucson. The CAP Surcharge will begin at zero and be adjusted annually as described in the Proposed Plan of Administration.

50. The Settlement Agreement eliminates the CAP Hook-up Fee Tariff.

...

...

³⁴ Ex A-7 Bourassa Reb at 16-19. Ex A-6 Volpe Reb at 2-6.

³⁵ Settlement Agreement at Sections II and III.

C. The CAP Project and CAP Surcharge Mechanism

51. VWC has entered into an agreement with the City of Tucson under which Tucson will take delivery of VWC's CAP water at Tucson's recharge facility in Avra Valley, and in return for a fee based on its costs, Tucson will deliver water to VWC near VWC's service area on the opposite side of the City. VWC will need to construct 1.8 miles of transmission main and a booster station to take delivery of the Tucson water and transport it to VWC's system.³⁶ VWC will continue to recharge with Kai Farms, as it does now, that portion of its CAP allocation that it does not need to provide service to its customers.³⁷

52. Staff concludes that the proposed project is appropriate and that its projected cost of \$1,956,321 is reasonable.³⁸ Because the construction project is not yet begun, it is not included in rate base. VWC is able to use the funds in its segregated CAP account to fund construction. As of December 31, 2012, when VWC filed its annual report on the status of the CAP account, the balance was \$1,626,866.³⁹

53. Prior to taking delivery of water from the City, VWC will file a request with the Commission to approve its initial CAP Surcharge. The CAP Surcharge amount will be calculated based on seven cost components related to variances in the cost of the CAP allocation, the wheeling contract costs, and the costs of the LTSCs, divided by the prior year's gallons sold.⁴⁰

54. The first component of the CAP Surcharge allows recovery of variances in CAP M&I capital and CAP delivery charges from those included in base rates. Base rates include combined CAP M&I and CAP delivery charges of \$105.87 per acre-foot ("a.f.").⁴¹

55. The second component of the CAP Surcharge includes the cost of the wheeling agreement between VWC and the City of Tucson. This is the volume of water that Tucson delivers

³⁶ Ex S-1 Engineering Report at 10.

³⁷ Tr. at 50.

³⁸ Ex S-1 Engineering Report at 10.

³⁹ Filed January 11, 2013. See Docket Nos. W-01651B-99-0406 and W-01651B-99-0351.

⁴⁰ See POA at Sections III and IV.

⁴¹ If, for example the current M&I capital and delivery charges increase to \$144.00, as they are expected to do in 2014, the variance would be \$38.13, which is multiplied by the CAP allocation of 1,857 a.f.. The product (\$70,807) is the first component of the base cost of the Surcharge calculation. See Exhibit 1 to the POA.

1 to VWC at the wheeling contract price. The contract price was expected to be \$650 per acre foot.⁴²

2 56. The third component of the Surcharge applies the rate variance calculated in
3 Component 1 to any excess of the total CAP allocation over the total water wheeled to customers. It
4 is an asset that represents the CAP costs included in LTSCs reserved for future use. As long as VWC
5 is not delivering its entire CAP allocation to Tucson, this component will reduce the amount of the
6 Surcharge.⁴³

7 57. Component 4 accounts for the prior year's under or over recovery and is intended to
8 ensure that the Company will collect its actual costs and credit ratepayers for any over-collections.

9 58. Component 5 reflects the value of LTSCs to be recovered from ratepayers and used to
10 offset CAGRD fees. The amount for recovery from ratepayers is calculated using average inventory
11 costs. VWC must provide documentation to support these amounts.⁴⁴

12 59. The sixth component of the Surcharge is the gain on sale of LTSCs and reflects the
13 customers' share (50 percent) of any profit resulting from the sale of LTSCs to third parties. This
14 amount, if any, would be a credit (i.e. reduce the amount of the Surcharge).

15 60. Component 7 is "Excess Water Loss Disallowance" which is based on unaccounted
16 for water loss in VWC's system in excess of 10 percent. If VWC's unaccounted for water loss for
17 the 12 months prior to the date of filing for a new surcharge exceeds 10 percent, the total amounts for
18 the other components will be reduced by the percentage of unaccounted for water loss in excess of 10
19 percent.

20 61. The CAP Surcharge POA provides that VWC will maintain a CAP LTSC balance.
21 The beginning balance is set at \$1,081,028, which is the amount adopted as a component of rate base
22 and will reflect additions for: 1) CAP M&I capital charges and CAP delivery charges incurred in the
23 period beginning January 1, 2012, and ending the day before rates become effective in this case; and
24

25 ⁴² Initially, VWC expected to deliver 1,100 a.f. of its 1,857 a.f. total allocation to Tucson. The projected annual cost is
26 \$715,000 (1,100 a.f. x \$650). The sample CAP Surcharge Calculation attached to the POA uses a contract price of
27 \$650/a.f.; Mr. Volpe testified that he thought the contract price would be approximately \$601/a.f. To be conservative in
28 our estimates we use the higher number.

⁴³ Thus, if VWC delivers 1,100 a.f. to Tucson and recharges the remaining 757 a.f. with Kai Farms, the base costs that
comprise the Surcharge would be reduced by the variance calculated in Component 1 times 757 a.f. (e.g., \$38.13 x 757
a.f.=\$28,864 (a credit).

⁴⁴ Tr. at 71.

1 2) the Periodic Unrecovered Recharge Credits (Component 3); and deductions for: 1) LTSC
2 Recovery (Component 5); and 2) Total Cost of LTSCs Sold.

3 62. On or before February 1st of each year after the initial Surcharge is set, VWC will
4 submit to the Commission as a compliance item, an annual report showing its collections under the
5 CAP Surcharge that will include a calculation of any under/over recovery and a calculation of the
6 CAP LTSC balance with detail showing each component's contribution to the change in balance
7 from the prior year.

8 63. Annually, VWC will submit a schedule showing the computation of each year's
9 Surcharge along with supporting documentation of the underlying costs. Except for the first year,
10 which may be a partial year, each surcharge will be in effect for 12 months. The first surcharge
11 calculation will require Commission approval prior to going into effect. Thereafter, each surcharge
12 shall be approved administratively by Staff and become effective on April 1st, unless Staff files an
13 objection to the surcharge calculation prior to April 1st. Notwithstanding the foregoing, if any annual
14 surcharge proposed by VWC represents an increase greater than \$1.00 per 1,000 gallons over the
15 CAP Surcharge then in effect, such Surcharge will require Commission approval prior to going into
16 effect.

17 **D. Benefits of the Settlement Agreement According to the Parties**

18 64. Mr. Volpe is a Vice President of VWC. He testified about the settlement process, and
19 that the parties were able to reach a compromise after candid discussions and a willingness to find
20 common ground. He testified that approving the Settlement Agreement is in the public interest
21 because it provides a reasonable resolution of the issues raised in this rate case.⁴⁵ He stated that
22 although the Settlement Agreement incorporates a rate of return lower than that sought by VWC, he
23 believes that VWC will be able to continue operating effectively and providing safe and reliable
24 water service. Mr. Volpe asserts that most importantly, the Settlement Agreement supports the
25 Company's direct use of a renewable resource in its service territory.

26 65. Mr. LeSueur, an assistant Division Director for the Commission's Utilities Division,
27

28 ⁴⁵ Ex A-10 Volpe Settlement Testimony.

1 testified that the settlement process was “transparent and productive.”⁴⁶ Mr. LeSueur testified that
 2 one of the key elements of the Settlement Agreement was the appropriate treatment of the CAP
 3 recharge credits, and Staff acknowledges that including those credits in rate base is appropriate
 4 because the Company acquired the credits with Company revenues, not customer contributions, and
 5 they are used and useful in providing service to its customers.⁴⁷

6 66. After reviewing the Rebuttal Testimony of Kara Festa, Staff agreed with the
 7 conclusion that Well No. 6 is needed for the system operation and demand and is not excess capacity.
 8 Staff concludes that Well No. 6 is used and useful, and should be included in rate base.⁴⁸ In addition,
 9 Staff concurred with the Company about the appropriate level of plant retirements.⁴⁹

10 67. Staff believes that directly using CAP water by means of a wheeling agreement with
 11 the City of Tucson will benefit VWC’s current and future ratepayers. Staff notes that delivering the
 12 CAP water to VWC’s territory is not easy, “nor is it free,” and a CAP Surcharge would allow the
 13 Company to timely and transparently recover its CAP water and delivery costs from customers.⁵⁰
 14 Staff supports finding that the CAP LTSCs are used and useful, and that including them in rate base
 15 is appropriate in order not to discourage the Company from making reasonable and prudent
 16 expenditures in transitioning towards a renewable water supply.⁵¹

17 68. Staff believes the Settlement Agreement is in the public interest because:

18 (a) The 9.1 percent cost of equity, is balanced in favor of minimizing the rates for
 19 ratepayers;

20 (b) The Agreement fairly resolves a potentially litigious issue concerning the
 21 treatment of the Company’s existing CAP recharge credits; and

22 (c) The Agreement provides for timely and transparent recovery of the costs incurred
 23 in bringing renewable CAP water into the Company’s service territory and thereby reducing VWC’s
 24 reliance on groundwater.⁵²

25 ⁴⁶ Ex S-2 LeSueur Settlement Testimony at 3; Tr. at 79-80.

26 ⁴⁷ Ex S-2 LeSueur Settlement Testimony at 3-4. Tr. at 81.

⁴⁸ Ex S-2 LeSueur Settlement Testimony at 5; Tr. at 81.

27 ⁴⁹ Ex S-2 LeSueur Settlement Testimony at 5; Tr. at 74.

⁵⁰ Ex S-2 LeSueur Settlement Testimony at 6; Tr. at 81-82.

28 ⁵¹ Ex S-2 LeSueur Settlement Testimony at 4; Tr. at 82-83.

⁵² Ex S-2 LeSueur Settlement Testimony at 9.

III. Analysis and Conclusions

69. The Commission has supported VWC's CAP Project for the direct use of CAP water in VWC's service area since at least 2000. As recently as June, 2012, the Commission reaffirmed its support of the CAP Project.⁵³

70. VWC's CAP allocation is an asset, which if it is able to be utilized in its service area, will provide direct benefits to the Company, ratepayers, and the aquifer by promoting Safe Yield. VWCs LTSCs can be used to offset pumping during times when the CAP canal is down, to support additional groundwater pumping, or can be sold to third parties. The CAP allocation and the recharge credits are assets that allow the Company to maintain its Designation of Assured Water Supply and provide benefits ratepayers by keeping the cost of the groundwater lower than if VWC had to purchase the recharge credits in the open market.

71. We find that the Settlement Agreement is a fair and balanced resolution of the issues raised in the rate case and that the CAP Surcharge is fairly and transparently designed to recover VWC's costs of delivering and using its CAP allocation in its service area.

72. The evidence supports a FVRB of \$3,315,108, as set forth in the Settlement Agreement.

73. We find that in the test year, the Company had total revenues of \$2,183,759, and operating income of \$285,069, an 8.6 percent return on the FVRB.

74. Using the Company's actual capital structure of 100 percent equity, and a COE and fair value rate of return of 9.1 percent, is fair and appropriate under the circumstances of this case, and will result in just and reasonable rates.

75. Based on a FVRB of \$3,315,108 and an authorized fair value rate of return of 9.1 percent, VWC is entitled to a revenue increase of \$21,480, or 0.98 percent, over test year revenues.

76. The implementation of the CAP Surcharge, as reflected in the Settlement Agreement and Plan of Administration, to recover the costs of providing CAP water to VWC's service area is in the public interest, except that to the extent it is not clear in the Settlement Agreement and POA, not

⁵³ Decision No. 73218.

1 only should VWC be required to demonstrate that the sale of any LTSCs to a third party, either
 2 affiliated or unaffiliated, should be above cost, we believe that the Company should maximize the
 3 benefits to ratepayers of this asset by crediting them with the higher of the sales price (always at or
 4 above cost) or the market value of the LTSCs when determining the profit element of Surcharge
 5 Component 6.⁵⁴ The Company testified that the recharge credits can be valuable.⁵⁵ In the past it has
 6 only sold recharge credits at cost to the affiliated Lago Del Oro Golf Course.⁵⁶ There may be a need
 7 to sell the recharge credits to an affiliate in the future, and management should be required to
 8 demonstrate that any sale of credits to an affiliate was an arms' length transaction and that the value
 9 of the LTSCs is maximized.⁵⁷

10 77. The rate design adopted in the Settlement Agreement is fair and reasonable.

11 78. Under the rates approved herein, a residential user with a 5/8 x 3/4 inch meter and
 12 average usage of 6,720 gallons per month would see a decrease in his or her bill of \$1.10, or 2.75
 13 percent, from \$40.06 to \$38.96.

14 79. The initial CAP Surcharge will not go into effect until the Commission approves it.
 15 Based on currently available information about increased CAP M&I capital and delivery costs, the
 16 initial CAP Surcharge is expected to be in the range of \$2.00 to \$3.00 per 1,000 gallons.⁵⁸

17 80. Staff concluded that the Company has adequate production capacity and storage
 18 capacity to serve the existing customer bases and reasonable growth.

19 81. VWC and Staff agree that it is reasonable that the Company file five BMPs in the
 20 form of tariffs.⁵⁹ We concur.

21 CONCLUSIONS OF LAW

22 1. VWC is a public service corporation within the meaning of Article XV of the Arizona

23 ⁵⁴ We are not changing the formula for Component 6, but clarifying that line 23 should reflect a reasonable and fair sales
 24 price. If there is no market, or a limited market, for the sale of LTSCs, the Company can make such an assertion and
 25 discuss with Staff why its proposed sales price input on line 23 is fair and reasonable when it files to set or re-set the CAP
 Surcharge.

⁵⁵ Tr. at 41 and 65.

⁵⁶ Tr. at 39 and 72.

26 ⁵⁷ Staff will be able to review the sale price of the LTSCs when the Company files its annual Reports and Surcharge re-set
 27 request, and can object if the Company is not demonstrating a good faith effort to maximize the benefits of the LTSCs.
 See Tr. at 86, 88 and 83.

⁵⁸ Tr. at 55-56. See Exhibit 1 to POA Sample calculation.

⁵⁹ Tr. at 92.

2. The Commission has jurisdiction over VWC and the subject matter of the Rate Application.

2. The Commission has jurisdiction over VWC and the subject matter of the Rate Application.

Application.

3. Notice of the Rate Application was provided in the manner prescribed by law.

4. The Settlement Agreement and Plan of Administration for the CAP Surcharge, and the rates and charges authorized herein are just and reasonable and should be approved.

rates and charges authorized herein are just and reasonable and should be approved.

ORDER

IT IS THEREFORE ORDERED that the Settlement Agreement between Vail Water Company the Arizona Corporation Commission Utilities Division Staff and the Plan of Administration for the CAP Surcharge attached hereto as Exhibit A, are hereby approved.

Company the Arizona Corporation Commission Utilities Division Staff and the Plan of Administration for the CAP Surcharge attached hereto as Exhibit A, are hereby approved.

Administration for the CAP Surcharge attached hereto as Exhibit A, are hereby approved.

IT IS FURTHER ORDERED that Vail Water Company shall file with Docket Control, as a compliance item in this docket, by July 31, 2013, revised rate schedules setting forth the rates and charges as contained in the Settlement Agreement attached hereto as Exhibit A.

compliance item in this docket, by July 31, 2013, revised rate schedules setting forth the rates and charges as contained in the Settlement Agreement attached hereto as Exhibit A.

charges as contained in the Settlement Agreement attached hereto as Exhibit A.

IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for all service provided on and after August 1, 2013, except that the effective date of the CAP Surcharge will be set by a future Commission Order.

all service provided on and after August 1, 2013, except that the effective date of the CAP Surcharge will be set by a future Commission Order.

will be set by a future Commission Order.

IT IS FURTHER ORDERED that Vail Water Company shall notify its customers of the rates and charges authorized herein, and their effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing or as a separate mailing.

and charges authorized herein, and their effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing or as a separate mailing.

Utilities Division Staff, by means of an insert in its next regularly scheduled billing or as a separate mailing.

mailing.

IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges, Vail Water Company shall collect from its customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409(D).

Vail Water Company shall collect from its customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409(D).

use tax per A.A.C. R14-2-409(D).

IT IS FURTHER ORDERED that when determining the profit element of Component 6 of the CAP Surcharge, the higher of the sales price or fair market value of the Long Term Storage Credits should be used.

CAP Surcharge, the higher of the sales price or fair market value of the Long Term Storage Credits should be used.

should be used.

• • •

• • •

IT IS FURTHER ORDERED that within 90 days of the effective date of this Order, Vail Water Company shall file with Docket Control five Best Management Practices tariffs in the form of tariffs that substantially conform to the templates created by Staff for Commission review and approval, as set forth on the Commission's website.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

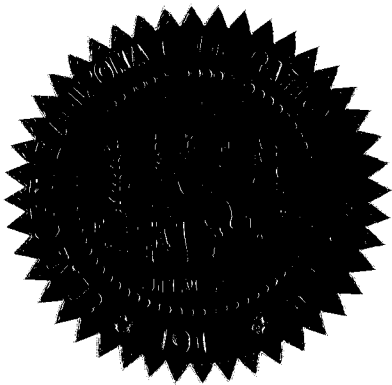
CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 30th day of July 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: VAIL WATER COMPANY

2 DOCKET NO.: W-01651B-12-0339

3

4 Michael Hallam
5 Matthew Bingham
6 Lewis and Roca, LLP
7 40 North Central Ave.
8 Phoenix, AZ 85004
9 Attorneys for Vail Water Co.

10 Janice Alward, Chief Counsel
11 Legal Division

12 ARIZONA CORPORATION COMMISSION
13 1200 W. Washington Street
14 Phoenix, Arizona 85007

15 Steven Olea, Director
16 Utilities Division
17 ARIZONA CORPORATION COMMISSION
18 1200 W. Washington Street
19 Phoenix, Arizona 85007

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

VAIL WATER COMPANY
PROPOSED SETTLEMENT AGREEMENT

DOCKET NO. W-01651B-12-0339

April 26, 2013

TABLE OF CONTENTS

I.	RECITALS	1
II.	RATE INCREASE	2
III.	COST OF CAPITAL	2
IV.	CAP SURCHARGE ADJUSTMENT PROVISIONS	2
V.	RATE DESIGN	3
VI.	COMPLIANCE AND OTHER MATTERS	3
VII.	COMMISSION EVALUATION OF PROPOSED SETTLEMENT	3
VIII.	MISCELLANEOUS PROVISIONS	4

**PROPOSED SETTLEMENT AGREEMENT OF
DOCKET NO. W-01651B-12-0339
VAIL WATER COMPANY'S REQUEST FOR RATE ADJUSTMENT**

The purpose of this Settlement Agreement ("Agreement") is to settle disputed issues related to Docket No. W-01651B-12-0339, Vail Water Company's ("Vail" or the "Company") application for a determination of the fair value of its utility plant and property and the setting of rates thereon (the "Rate Case"). This Agreement is entered into between Arizona Corporation Commission Utilities Division ("Staff") and Vail (each a "Party," and collectively, the "Parties").

I. RECITALS

- 1.1 Vail filed the rate application in Docket No. W-01651B-12-0339 on July 27, 2012. Staff found the Application sufficient on August 27, 2012.
- 1.2 No other entity filed to intervene.
- 1.3 A Procedural Order was issued on September 11, 2012, scheduling an evidentiary hearing on May 7, 2013.
- 1.4 This Agreement is a result of the Parties' good faith efforts to settle all of the issues presented in the Rate Case.
- 1.5 The terms of this Agreement will serve the public interest by providing a just and reasonable resolution of the issues presented in the Rate Case, establishing just and reasonable rates for Vail's customers, and promoting the health, welfare, and safety of Vail's customers. Commission approval of this Agreement will further serve the public interest by allowing the Parties to avoid the expense and delay associated with continued litigation.
- 1.6 The Parties agree to ask the Commission to: (1) find that the terms and conditions of this Agreement are just and reasonable and in the public interest, along with any and all other necessary findings, and (2) approve the Agreement and order that the Agreement and the rates contained therein become effective at the earliest practicable date.

TERMS AND CONDITIONS**II. RATE INCREASE**

For ratemaking purposes and for the purposes of this Agreement, the Parties agree that:

- 2.1 Vail's adjusted test year revenue was \$2,183,759.
- 2.2 Vail will receive an annual increase in revenue of \$21,480, for an annual revenue requirement of \$2,205,239.
- 2.3 The Company's fair value rate base used to establish the rates agreed to herein is \$3,315,108.
- 2.4 The fair value rate base includes deferred Central Arizona Project ("CAP") recharge credits of \$1,081,028. In addition, the Company agrees that all recharge credits sold by the Company must be priced, at a minimum, to recover the direct costs of the CAP water, including recognition of the Department of Water Resources' ("ADWR") 5% cut to the aquifer.
- 2.5 The schedules attached as **Exhibit A** ("Settlement Schedules") reflect the Parties' agreed upon rate base, operating expenses and operating income, cost of capital and rate design.

III. COST OF CAPITAL

For ratemaking purposes and for the purposes of this Agreement, the Parties agree that:

- 3.1 The Company has a capital structure comprised of 100% common equity.
- 3.2 A return on common equity of 9.1% shall be adopted.

IV. CAP SURCHARGE ADJUSTMENT PROVISIONS

- 4.1 Vail shall implement a CAP Surcharge, the components of which will include (i) CAP Municipal and Industrial (M&I) capital charges, (ii) CAP delivery charges, and (iii) City of Tucson wheeling charges.

- 4.2 The CAP Surcharge will begin at zero and be adjusted annually as described in the Proposed Plan of Administration.
- 4.3 As described in the Proposed Plan of Administration, Vail's CAP capital and delivery cost recovery through the CAP Surcharge will be reduced for any water loss in excess of 10 percent (10%).
- 4.4 The parties shall file the Proposed Plan of Administration prior to the May 7, 2013 hearing.

V. RATE DESIGN

- 5.1 The Company accepts Staff's rate design to generate the settlement revenue requirement as further set forth in the Settlement Schedules.

VI. COMPLIANCE AND OTHER MATTERS

- 6.1 The Company will obtain timesheets for management services from TEM Corp. to support management fees requested for recovery in rates in future rate cases and provide copies of such time records to Staff in future rate cases.
- 6.2 The Company's CAP Hook Up Fee Tariff will be eliminated.

VII. COMMISSION EVALUATION OF PROPOSED SETTLEMENT

- 7.1 This Agreement shall serve as a procedural device by which the Parties will submit their proposed settlement of Vail's pending rate case, Docket No. W-01651B-12-0339, to the Commission.
- 7.2 All currently-filed testimony and exhibits shall be offered into the Commission's record as evidence.
- 7.3 The Parties recognize that the Commission will independently consider and evaluate the terms of this Agreement.
- 7.4 If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute Commission approval of the Agreement. Thereafter, the Parties shall abide by the terms as approved by the Commission.

- 7.5 The Parties agree to support and defend this Agreement, including filing testimony in support of the Agreement and presenting evidence in support of the Agreement at the hearing scheduled to begin on May 7, 2013, and will not oppose any provision of the Agreement in pre-filed or live testimony. The Parties shall take reasonable steps to expedite consideration of the settlement, entry of a decision adopting the settlement, and implementation of the rates anticipated in this Agreement and shall not seek any delay in the schedules set for consideration of the Agreement or for the Administrative Law Judge's or Commission's consideration of the settlement embodied in this Agreement. If the Commission adopts an order approving all material terms of this Agreement, the Parties will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.
- 7.6 Within fifteen (15) days of an order of the Commission issued in this Docket, Vail shall file compliance tariffs for Staff review and approval. Such compliance tariffs, however, will become effective upon the effective date of the rate increase stated in the Commission's order.
- 7.7 If the Commission fails to issue an order adopting all material terms of this Agreement or adds new or different material terms to this Agreement or decides any issue or adopts any position in conflict with any material term of this Agreement, any or all of the Parties may withdraw from this Agreement, and such Party or Parties may pursue without prejudice their respective remedies at law. For purposes of this Agreement, whether a term is material shall be left to the discretion of the Party choosing to withdraw from the Agreement.
- 7.8 Vail recognizes that Staff does not have the power to bind the Commission. For purposes of proposing a settlement agreement, Staff acts in the same manner as any party to a Commission proceeding.

VIII. MISCELLANEOUS PROVISIONS

- 8.1 The provisions set forth in this Agreement are made for the purposes of a compromised settlement only and shall not be construed as admissions against interest or waivers of litigation positions of the Parties in this Rate Case or to other or future rate cases.
- 8.2 This Agreement represents the Parties' mutual desire to compromise and settle disputed issues in a manner consistent with the public interest. None of the positions taken in this Agreement by any of the Parties may be

referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except in furtherance of this Agreement.

- 8.3 This case presents a unique set of circumstances and compromises to achieve consensus for settlement. Consequently, participants may be accepting positions that, in other circumstances, they would be unwilling to accept. They are doing so because the Agreement, as a whole, with its various provisions for settling the unique issues presented by this case, is consistent with their long-term interests and the broad public interest. The acceptance by any Party of any specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.
- 8.4 No Party is bound by any position asserted in negotiations, except as expressly stated otherwise in this Agreement. No Party shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, or any other regulatory agency, or any court.
- 8.5 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement shall control.
- 8.6 Each of the terms of this Agreement is in consideration of all other terms of this Agreement. Accordingly, the terms are not severable.
- 8.7 The Parties warrant and represent that each person whose signature appears below is fully authorized and empowered to execute this Agreement.
- 8.8 The Parties acknowledge that they are represented by competent legal counsel and that they understand all of the terms of this Agreement and have had an opportunity to participate in the drafting of this Agreement and to fully review it with their counsel before signing, and that they execute this Agreement with full knowledge of the terms of the Agreement.
- 8.9 This Agreement may be executed in any number of counterparts and by each Party on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

Executed this 26th day of April, 2013.


VAIL WATER COMPANY

By: 

Name: SHELDON J. MANDELL

Its: PRESIDENT

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

By: 

Name: STEVE O'LEA

Its: Director, Utilities Division

EXHIBIT A
SETTLEMENT SCHEDULES

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 3,312,773	\$ 3,315,108
2	Adjusted Operating Income (Loss)	\$ 312,107	\$ 285,069
3	Current Rate of Return (L2 / L1)	9.42%	8.60%
4	Required Rate of Return	10.40%	9.10%
5	Required Operating Income (L4 * L1)	\$ 344,528	\$ 301,675
6	Operating Income Deficiency (L5 - L2)	\$ 32,421	\$ 16,606
7	Commission Tax Allowance Policy - Gross Revenue Conversion Factor	1.3606	1.2935
8	Required Revenue Increase (L7 * L6)	\$ 44,113	\$ 21,480
9	Adjusted Test Year Revenue	\$ 2,334,747	\$ 2,183,759
10	Proposed Annual Revenue	\$ 2,378,860	\$ 2,205,239
11	Required Increase in Revenue (%)	1.89%	0.98%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-2 and JMM-8

Vall Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-2

COMMISSION TAX ALLOWANCE POLICY - GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Commission Tax Allowance Policy - Calculation of Gross Revenue Conversion Factor:</u>					
1	Commission Tax Allowance Policy - Revenue	100.0000%			
2	Commission Tax Allowance Policy - Uncollectible Factor	0.0000%			
3	Commission Tax Allowance Policy - Revenues (L1 - L2)	100.0000%			
4	Commission Tax Allowance Policy - Combined Federal and State Income Tax and Property Tax Rate (Line 18)	22.6905%			
5	Subtotal (L3 - L4)	77.3095%			
6	Commission Tax Allowance Policy - Revenue Conversion Factor (L1 / L5)	1.293502			
<u>Commission Tax Allowance Policy - Calculation of Effective Tax Rate:</u>					
7	Operating Income Before Commission Tax Allowance Policy (Arizona Taxable Income)	100.0000%			
8	Commission Tax Allowance Policy - Arizona State Income Tax Rate (from worksheet)	2.9627%			
9	Commission Tax Allowance Policy - Income (L7 - L8)	97.0373%			
10	Commission Tax Allowance Policy - Applicable Federal Income Tax Rate (Line 48)	19.1272%			
11	Commission Tax Allowance Policy - Effective Federal Income Tax Rate (L9 x L10)	18.5805%			
12	Commission Tax Allowance Policy - Combined Federal and State Income Tax Rate (L8 + L11)		21.5232%		
<u>Commission Tax Allowance Policy - Calculation of Effective Property Tax Factor</u>					
13	Unity	100.0000%			
14	Commission Tax Allowance Policy - Combined Federal and State Income Tax Rate (L12)	21.5232%			
15	Commission Tax Allowance Policy - One Minus Combined Income Tax Rate (L13-L14)	78.4768%			
16	Commission Tax Allowance Policy - Property Tax Factor (JMM-W14, L27)	1.4874%			
17	Commission Tax Allowance Policy - Effective Property Tax Factor (L15 * L16)		1.1673%		
18	Commission Tax Allowance Policy - Combined Federal and State Income Tax and Property Tax Rate (L12 + L17)			22.6905%	
19	Commission Tax Allowance Policy - Required Operating Income (Schedule JMM-1, Line 5)	\$ 301,675			
20	Commission Tax Allowance Policy - Adjusted Test Year Operating Income (Loss) (JMM-8, L35)	285,069			
21	Commission Tax Allowance Policy - Required Increase in Operating Income (L19 - L20)		\$ 16,606		
22	Commission Tax Allowance Policy - Income Taxes on Recommended Revenue (Col. [C], L47)	\$ 82,738			
23	Commission Tax Allowance Policy - Income Taxes on Test Year Revenue (Col. [A], L47)	78,184			
24	Commission Tax Allowance Policy - Required Increase in Revenue to Provide for Income Taxes (L22 - L23)			4,554	
25	Commission Tax Allowance Policy - Recommended Revenue Requirement (Schedule JMM-W1, Line 10)	\$ 2,205,239			
26	Commission Tax Allowance Policy - Uncollectible Rate	0.0000%			
27	Commission Tax Allowance Policy - Uncollectible Expense on Recommended Revenue (L25 * L26)	\$ -			
28	Commission Tax Allowance Policy - Adjusted Test Year Uncollectible Expense	\$ -			
29	Commission Tax Allowance Policy - Required Increase in Revenue to Provide for Uncollectible Exp. (L27-L28)				
30	Commission Tax Allowance Policy - Property Tax with Recommended Revenue (Schedule JMM-W14, L21)	\$ 97,263			
31	Commission Tax Allowance Policy - Property Tax on Test Year Revenue (Schedule JMM-W14, Line 17)	96,944			
32	Commission Tax Allowance Policy - Increase in Property Tax Due to Increase in Revenue (L30-31)			319	
33	Commission Tax Allowance Policy - Total Required Increase in Revenue (L21 + L24 + L29 + L32)		\$ 21,480		
<u>Commission Tax Allowance Policy Calculation of Income Tax:</u>					
34	Commission Tax Allowance Policy - Revenue (Schedule JMM-1, Col. [B], Line 9 & Sch. JMM-1, Col. [B] Line 10)	\$ 2,183,759	\$ 21,480	\$ 2,205,239	
35	Commission Tax Allowance Policy - Operating Expenses Excluding Income Taxes	\$ 1,820,507		\$ 1,820,826	
36	Commission Tax Allowance Policy - Synchronized Interest (L51)	\$ -		\$ -	
37	Commission Tax Allowance Policy - Arizona Taxable Income (L34 - L35 - L36)	\$ 363,253		\$ 384,413	
38	Commission Tax Allowance Policy - Arizona State Income Tax Rate	2.9627%		2.9627%	
39	Commission Tax Allowance Policy - Arizona Income Tax (L37 x L38)	\$ 10,762		\$ 11,389	
40	Commission Tax Allowance Policy - Federal Taxable Income (L37- L39)	\$ 352,491		\$ 373,024	
41	Commission Tax Allowance Policy - Federal Effective Tax	19.1272%		19.1272%	
42	Commission Tax Allowance Policy - Federal Tax	\$ 67,422		\$ 71,349	
43		\$ -		\$ -	
44		\$ -		\$ -	
45		\$ -		\$ -	
46		\$ 67,422		\$ 71,349	
47	Commission Tax Allowance Policy - Combined Federal and State Income Tax (L39 + L46)	\$ 78,184		\$ 82,738	
48	Commission Tax Allowance Policy - Applicable Federal Income Tax Rate [Col. [C], L46 - Col. [A], L46] / [Col. [C], L40 - Col. [A], L40]				19.1272%
<u>Commission Tax Allowance Policy - Calculation of Interest Synchronization:</u>					
49	Commission Tax Allowance Policy - Rate Base (Schedule JMM-3, Col. (C), Line 17)	\$ 3,315,108			
50	Commission Tax Allowance Policy - Weighted Average Cost of Debt	0.0%			
51	Commission Tax Allowance Policy - Synchronized Interest (L45 X L46)	\$ -			

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-3

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1 Plant in Service	\$ 20,158,710	\$ (92,955)	\$ 20,065,755
2 Less: Accumulated Depreciation	3,722,176	(120,545)	3,601,631
3 Net Plant in Service	<u>\$ 16,436,534</u>	<u>\$ 27,590</u>	<u>\$ 16,464,124</u>
<u>LESS:</u>			
4 Contributions in Aid of Construction (CIAC)	\$ 2,930,228	\$ -	\$ 2,930,228
5 Less: Accumulated Amortization	605,832	(2,076)	\$ 603,756
6 Net CIAC	<u>2,324,396</u>	<u>2,076</u>	<u>\$ 2,326,472</u>
7 Advances in Aid of Construction (AIAC)	11,374,431	-	11,374,431
8 Customer Deposits	529,140	-	529,140
9 Deferred CAP Liability	-	-	-
<u>ADD:</u>			
10 Deferred CAP Charges	1,104,206	(23,178)	1,081,028
11 Deferred Tax Assets	-	-	-
12 Original Cost Rate Base	<u>\$ 3,312,773</u>	<u>\$ 2,335</u>	<u>\$ 3,315,108</u>

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 Retired Plant Ref: Sch JMM-5	(C) ADJ #2 Plant Retired to Wrong Account Ref: Sch JMM-6	(D) ADJ #3 Excess Capacity Ref: Sch JMM-7	(E) ADJ #4 CAP LTSC Ref: Sch JMM-8	(F) STAFF ADJUSTED
1		PLANT IN SERVICE:						
2	301	Organization Cost						
3	302	Franchise Cost	17,750					17,750
4	303	Land and Land Rights	399,328	(1,978)				397,350
5	304	Structures and Improvements						
6	305	Collecting and Impounding Res.						
7	306	Lake River and Other Intakes	1,126,979					1,126,979
8	307	Wells and Springs						
9	308	Infiltration Galleries and Tunnels	2,995					2,995
10	309	Supply Mains						
11	310	Power Generation Equipment	1,553,110	(29,479)	1,838			1,525,469
12	311	Electric Pumping Equipment						
13	320.1	Water Treatment Plants						
14	320.2	Solution Chemical Feeders						
15	330	Distribution Reservoirs & Standpipe	1,621,069	(61,499)	25,642			1,585,212
16	330.1	Storage Tanks						
17	330.2	Pressure Tanks	14,023,034					14,023,034
18	331	Transmission and Distribution Mains	12,451					12,451
19	333	Services	923,082					923,082
20	334	Meters	492,908					492,908
21	335	Hydrants	7,901					7,901
22	336	Backflow Prevention Devices	6,553					6,553
23	339	Other Plant and Miscellaneous Equipment	29,683		(27,480)			2,203
24	340	Office Furniture and Fixtures	15,621					15,621
25	340.1	Computers and Software	54,807					54,807
26	341	Transportation Equipment	15,645					15,645
27	343	Tools and Work Equipment						
28	344	Laboratory Equipment						
29	345	Power Operated Equipment	5,190					5,190
30	346	Communications Equipment						
31	347	Miscellaneous Equipment						
32	348	Other Tangible Plant						
33		Total Plant in Service	(149,395)					(149,395)
34		Less: Accumulated Depreciation	20,158,710	(92,956)				20,065,755
35		Net Plant in Service	3,722,176	(92,956)	(27,599)			3,601,631
36					27,599			
37			18,436,534					18,464,124
38		LESS:						
39		Contributions in Aid of Construction (CIAC)						
40		Less: Accumulated Amortization	2,930,228		(2,076)			603,756
41		Net CIAC (L39 - L40)	605,832		2,076			2,326,472
42		Advances in Aid of Construction (AIAC)	2,324,396					
43		Customer Deposits	11,374,431					11,374,431
44		Deferred Income Taxes	529,140					529,140
45		Deferred CAP Liability						
46		ADD:						
47		Deferred CAP Charges	1,104,206				(23,178)	1,081,028
48		Deferred Tax Assets						
49		Original Cost Rate Base	3,312,773		25,513		(23,178)	3,315,108

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-5

RATE BASE ADJUSTMENT NO. 1 - RETIRED PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]		[B]		[C]	
			COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED (Col A + Col B)	
1	304	Structures and Improvements	\$	399,328	\$	(1,978)	\$	397,350
2	311	Electric Pumping Equipment		1,553,110		(29,479)		1,523,631
3	330	Distribution Reservoirs & Standpipe		1,621,069		(61,499)		1,559,570
4			\$	3,573,507	\$	(92,956)	\$	3,480,551
2								
3		Accumulated Depreciation	\$	3,722,176	\$	(92,956)	\$	3,629,220

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - PLANT RETIRED TO THE WRONG ACCOUNT

LINE NO.	ACCT NO.	DESCRIPTION	[A]		[B]		[C]	
			COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	311	Electric Pumping Equipment	\$	1,553,110	\$	1,838	\$	1,554,948
2	330	Distribution Reservoirs & Standpipe		1,621,089		25,642		1,646,711
3	340	Office Furniture and Fixtures		29,683		(27,480)		2,203
4			\$	3,203,862	\$	-	\$	3,203,862
5		Accumulated Depreciation	\$	3,722,176	\$	(27,589)	\$	3,694,587
		Adjustment to CIAC Amortization	\$	2,930,228	\$	(2,076)	\$	2,928,152

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-7

RATE BASE ADJUSTMENT NO. 3 - EXCESS CAPACITY

LINE NO.	ACCT NO.	DESCRIPTION	[A]		[B]		[C]	
			COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	307	Wells and Springs	\$	1,126,979	\$	-	\$	1,126,979
2								
3		Accumulated Depreciation	\$	3,722,176	\$	-	\$	3,722,176
4								
5								
6								

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Vall Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-8

RATE BASE ADJUSTMENT NO. 4 - CAP Long-Term Storage Credits

LINE NO.	ACCT NO.	DESCRIPTION	[A]		[B]		[C]	
			Plant in Service Per Company		Adjustment to Long-Term Storage Credits		Plant in Service Per Staff (Col A + Col B)	
1		Deferred CAP Charges	\$	1,104,206	\$	(23,178)	\$	1,081,028
2								
3		Deferred CAP Liability	\$	-	\$	-	\$	-
4								

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Vall Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-9

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	(A) COMPANY ADJUSTED TEST YEAR AS FILED	(B) STAFF TEST YEAR ADJUSTMENTS	(C) STAFF TEST YEAR AS ADJUSTED	(D) STAFF PROPOSED CHANGES	(E) STAFF RECOMMENDED
1	<u>REVENUES:</u>					
2	Metered Water Sales	\$ 2,120,110	\$ -	\$ 2,120,110	\$ 21,480	\$ 2,141,590
3	Water Sales-Unmetered	-	-	-	-	-
4	Other Water Revenue	214,637	(150,988)	63,649	-	63,649
5	intentionally Left Blank	-	-	-	-	-
6	Total Operating Revenues	\$ 2,334,747	\$ -	\$ 2,183,759	\$ 21,480	\$ 2,205,239
7						
8	<u>OPERATING EXPENSES:</u>					
9	Salaries and Wages	\$ 276,984	\$ -	\$ 276,984	\$ -	\$ 276,984
10	Employee Benefits	12,757	-	12,757	-	12,757
11	Purchased Water	199,817	-	199,817	-	199,817
12	Purchased Power	218,584	-	218,584	-	218,584
13	Chemicals	1,732	-	1,732	-	1,732
14	Materials and Supplies	14,372	-	14,372	-	14,372
15	Repairs and Maintenance	28,876	-	28,876	-	28,876
16	Office Supplies and Expense	73,301	-	73,301	-	73,301
17	Contractual Services - Engineering	6,270	-	6,270	-	6,270
18	Contractual Services - Accounting	10,473	-	10,473	-	10,473
19	Contractual Services - Legal	12,933	-	12,933	-	12,933
20	Contractual Services - Management Fees	211,138	(91,901)	119,237	-	119,237
21	Contractual Services - Other	15,976	-	15,976	-	15,976
22	Contractual Services - Water Testing	3,906	9,761	13,667	-	13,667
23	Rents - Building/Real Property	7,920	-	7,920	-	7,920
24	Rents - Equipment	8,314	-	8,314	-	8,314
25	Transportation Expenses	33,154	-	33,154	-	33,154
26	Insurance - Vehicle	5,111	-	5,111	-	5,111
27	Insurance - General Liability	32,130	-	32,130	-	32,130
28	Insurance - Worker's Comp	3,111	-	3,111	-	3,111
29	Regulatory Commission Expense	11,946	-	11,946	-	11,946
30	Regulatory Commission Expense - Rate Cost	30,000	-	30,000	-	30,000
31	Bad Debt Expense	6,856	-	6,856	-	6,856
32	Miscellaneous Expense	11,424	(1,311)	10,113	-	10,113
33	Depreciation Expense	570,649	(5,701)	564,948	-	564,948
34	Taxes Other than Income	-	-	-	-	-
35	Property Taxes	103,681	(6,737)	96,944	319	97,263
36	Income Taxes	106,244	(28,060)	78,184	4,554	82,738
37	Interest on Customer Deposits	4,981	-	4,981	-	4,981
38	Total Operating Expenses	\$ 2,022,640	\$ (123,949)	\$ 1,898,691	\$ 4,874	\$ 1,903,564
39	Operating Income (Loss)	\$ 312,107	\$ 123,949	\$ 285,069	\$ 16,606	\$ 301,675

References:

Column (A): Company Schedule C-1
Column (B): Schedule JMM-10
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-1, and JMM-14
Column (E): Column (C) + Column (D)

Water Company
 Docket No. W-01651B-12-0339
 at Year Ended: December 31, 2011

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

	(A) COMPANY AS FILED	(B) Purchased Water Expense ADJ #1 Ref: Sch JMM-11	(C) Water Testing Expense ADJ #2 Ref: Sch JMM-12	(D) Miscellaneous Expense ADJ #3 Ref: Sch JMM-13	(E) Depreciation Expense ADJ #4 Ref: Sch JMM-14	(F) Property Tax Expense ADJ #5 Ref: Sch JMM-15	(G) Income Tax Expense ADJ #6 Ref: Sch JMM-16	(H) Company Rebuttal Adjustments that Staff Accepts ADJ #7 Ref: Sch JMM-17	(I) STAFF ADJUSTED
REVENUES:									
Metered Water Sales	\$ 2,120,110								2,120,110
Water Sales-Unmetered									
Other Water Revenue	214,637								63,649
Intentionally Left Blank								(150,888)	
Total Operating Revenues	\$ 2,334,747	\$	\$	\$	\$	\$	\$	\$ (150,888)	\$ 2,183,759
OPERATING EXPENSES:									
Salaries and Wages	\$ 276,984	\$	\$	\$	\$	\$	\$	\$	276,984
Employee Benefits	12,757								12,757
1 Purchased Water	199,817								199,817
2 Purchased Power	218,584								218,584
3 Chemicals	1,732								1,732
4 Materials and Supplies	14,372								14,372
5 Repairs and Maintenance	28,876								28,876
6 Office Supplies and Expense	73,301								73,301
7 Contractual Services - Engineering	6,270								6,270
8 Contractual Services - Accounting	10,473								10,473
9 Contractual Services - Legal	12,933								12,933
10 Contractual Services - Management Fees	211,136								211,136
11 Contractual Services - Other	15,976								15,976
12 Contractual Services - Water Testing	3,909		9,761					(91,901)	119,237
13 Contractual Services - Building/Rental Property	7,920								15,876
14 Rents - Equipment	8,314								13,867
15 Transportation Expenses	33,154								7,920
16 Insurance - Vehicle	5,111								8,314
17 Insurance - General Liability	32,130								33,154
18 Insurance - Worker's Comp	3,111								5,111
19 Regulatory Commission Expenses	11,946								32,130
20 Regulatory Commission Expense - Rate Case	30,000								3,111
1 Bad Debt Expense	6,856								11,946
2 Miscellaneous Expense	11,424								30,000
3 Depreciation Expense				(1,311)	(5,701)				6,856
4 Amortization of CIAC									10,113
5 Taxes Other than Income									554,946
6 Property Taxes	103,661					(8,737)			
7 Income Taxes	106,244						(28,060)		96,944
8 Interest on Customer Deposits	4,981								78,184
9 Total Operating Expenses	\$ 2,022,640	\$ 6,761	\$ (8,761)	\$ (1,311)	\$ (5,701)	\$ (8,737)	\$ (28,060)	\$ (91,901)	\$ 1,898,691
0 Operating Income (Loss)	\$ 312,107	\$ (8,761)	\$ (8,761)	\$ (1,311)	\$ (5,701)	\$ (8,737)	\$ (28,060)	\$ (91,901)	\$ 285,069

DOCKET NO. W-01651B-12-0339

PRECISION NO. 73995

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-11

OPERATING ADJUSTMENT NO. 1 - PURCHASED WATER EXPENSE

Line No.	Description	[A]			[B]		[C]	
		COMPANY PROPOSED			STAFF ADJUSTMENTS		STAFF RECOMMENDED	
1	Purchased Water	\$	199,817	\$	-	\$	199,817	
	Staff's Calculation to increase CAP M&I Charges							
	Future CAP Charge 1,857 (a.f.) x \$146 (average of five years 129 + 138 + 149 + 155 + 159)	\$	271,122					
	Current CAP Charge 1,857 (a.f.) x \$122	\$	226,554					
	Increase	\$	44,568					
	Staff's Calculation to increase CAP Capital Charges							
	Future CAP Charge 1,857 (a.f.) x \$16.80 (average of five years 15 + 16 + 17 + 18 + 18)	\$	31,198					
	Current CAP Charge 1,857 (a.f.) x \$15	\$	27,855					
		\$	3,343					

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Vall Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-12

OPERATING ADJUSTMENT NO. 2 - WATER TESTING EXPENSE AND MANAGEMENT FEES EXPENSE

Line No.	Description	(A) COMPANY PROPOSED	(B) STAFF ADJUSTMENTS	(C) STAFF RECOMMENDED
		\$	\$	\$
1	Water Testing Fee	3,906	9,761	13,667

References:

Column [A]: Company Application
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Vall Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-13

OPERATING ADJUSTMENT NO. 3 - MISCELLANEOUS EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Miscellaneous Expense	\$ 11,424	\$ (1,311)	\$ 10,113

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 4 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	(A) PLANT IN SERVICE Per Staff	(B) NonDepreciable or Fully Depreciated Plant	(C) DEPRECIABLE PLANT (Col A - Col B)	(D) DEPRECIATION RATE	(E) DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ -	\$ -	\$ -	0.00%	\$ -
2	302	Franchise Cost	\$ -	\$ -	\$ -	0.00%	\$ -
3	303	Land and Land Rights	\$ 17,750	\$ 17,750	\$ -	0.00%	\$ -
4	304	Structures and Improvements	\$ 397,350	\$ -	\$ 397,350	3.33%	\$ 13,232
5	305	Collecting and Impounding Res.	\$ -	\$ -	\$ -	2.50%	\$ -
6	306	Lake River and Other Intakes	\$ -	\$ -	\$ -	2.50%	\$ -
7	307	Wells and Springs	\$ 1,126,979	\$ -	\$ 1,126,979	3.33%	\$ 37,528
8	308	Infiltration Galleries and Tunnels	\$ -	\$ -	\$ -	6.67%	\$ -
9	309	Supply Mains	\$ 2,995	\$ -	\$ 2,995	2.00%	\$ 60
10	310	Power Generation Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
11	311	Electric Pumping Equipment	\$ 1,525,469	\$ -	\$ 1,525,469	12.50%	\$ 190,684
12	320	Water Treatment Equipment	\$ -	\$ -	\$ -	3.33%	\$ -
13	320	Water Treatment Plant	\$ -	\$ -	\$ -	20.00%	\$ -
14	330	Distribution Reservoirs & Standpipe	\$ 1,585,212	\$ -	\$ 1,585,212	2.22%	\$ 35,192
15	330.1	Storage Tanks	\$ -	\$ -	\$ -	2.22%	\$ -
16	330.2	Pressure Tanks	\$ -	\$ -	\$ -	5.00%	\$ -
17	331	Transmission and Distribution Mains	\$ 14,023,034	\$ -	\$ 14,023,034	2.00%	\$ 280,461
18	333	Services	\$ 12,451	\$ -	\$ 12,451	3.33%	\$ 415
19	334	Meters	\$ 923,082	\$ -	\$ 923,082	8.33%	\$ 76,893
20	335	Hydrants	\$ 492,908	\$ -	\$ 492,908	2.00%	\$ 9,858
21	336	Backflow Prevention Devices	\$ 7,901	\$ -	\$ 7,901	6.67%	\$ 527
22	339	Other Plant and Miscellaneous Equipment	\$ 6,553	\$ -	\$ 6,553	6.67%	\$ 437
23	340	Office Furniture and Fixtures	\$ 2,203	\$ -	\$ 2,203	6.67%	\$ 147
24	341	Computers and Software	\$ 15,621	\$ -	\$ 15,621	20.00%	\$ 3,124
25	342	Transportation Equipment	\$ 54,807	\$ -	\$ 54,807	20.00%	\$ 10,961
26	343	Tools and Work Equipment	\$ 15,845	\$ -	\$ 15,845	5.00%	\$ 782
27	344	Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
28	345	Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
29	346	Communications Equipment	\$ 5,190	\$ -	\$ 5,190	10.00%	\$ 519
30	347	Miscellaneous Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
31	348	Other Tangible Plant	\$ (149,395)	\$ (149,395)	\$ -	10.00%	\$ -
32		Total Plant	\$ 20,065,755	\$ (131,645)	\$ 20,197,400		\$ 660,819

Composite Depreciation Rate: 3.27%

CIAC: \$ 2,930,228

Amortization of CIAC (Line 35 x Line 34): \$ 95,871

Depreciation Expense Before Amortization of CIAC: \$ 660,819

Less Amortization of CIAC: \$ 95,871

Test Year Depreciation Expense - Staff: \$ 564,948

Depreciation Expense - Company: \$ 570,649

Staff's Total Adjustment: \$ (5,701)

References:

Column [A]: Schedule JMM-4

Column [B]: From Column [A]

Column [C]: Column [A] - Column [B]

Column [D]: Engineering Staff Report

Column [E]: Column [C] x Column [D]

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-15

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 2,183,759	\$ 2,183,759
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	4,367,519	\$ 4,367,519
4	Staff Recommended Revenue, Per Schedule JMM-1	2,183,759	\$ 2,205,239
5	Subtotal (Line 4 + Line 5)	6,551,278	6,572,758
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,183,759	\$ 2,190,919
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	4,367,519	\$ 4,381,839
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	22,449	\$ 22,449
12	Full Cash Value (Line 9 + Line 10 - Line 11)	4,345,070	\$ 4,359,390
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	869,014	\$ 871,878
15	Composite Property Tax Rate (Per Company Schedule)	11.1556%	11.1556%
16			\$ -
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 96,944	
18	Company Proposed Property Tax	103,681	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ (6,737)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 97,263
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 96,944
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 319
24			
25	Increase to Property Tax Expense		\$ 319
26	Increase in Revenue Requirement		21,480
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.487411%

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Vall Water Company
 Docket No. W-01651B-12-0339
 Test Year Ended: December 31, 2011

Settlement Schedule JMM-16

OPERATING INCOME ADJUSTMENT NO. 6 - COMMISSION TAX ALLOWANCE POLICY - TEST YEAR INCOME TAXE EXPENSE

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Income Tax Expense	\$ 106,244	\$ (28,060)	\$ 78,184

References:

Column (A), Company Schedule C-1
 Column (B): Column (C) - Column (A)
 Column (C): Schedule JMM-2

Vali Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-17

OPERATING ADJUSTMENT NO. 7 - COMPANY REBUTTAL ADJUSTMENTS THAT STAFF ACCEPTS

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	CAP Hook-up Fees	\$ 2,120,110	\$ (150,988)	\$ 1,969,122
2	Contractual Services - Management Fees	\$ 211,138	\$ (91,901)	\$ 119,237

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended December 31, 2011

Rate Design

Settlement Schedule JMA-15
Page 1 of 2

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8" x 3/4" inch	\$ 13.18	\$ 14.70	\$ 14.70
3/4" inch	21.00	23.42	22.50
1" inch	40.50	45.16	37.50
1 1/2" inch	86.20	99.46	75.00
2" inch	147.70	184.89	120.00
3" inch	284.20	316.88	240.00
4" inch	479.20	534.31	375.00
6" inch	966.92	1,078.12	750.00
8" inch	N/A	N/A	1,200.00
10" inch	N/A	N/A	1,725.00
12" inch	N/A	N/A	3,225.00
Commodity Charge - Per 1,000 Gallons			
5/8" x 3/4" Meter (Residential)			
All Gallons	\$ 4,0000	N/A	N/A
First 4,000 gallons	N/A	\$ 3,7500	N/A
4,001 to 10,000 gallons	N/A	4,0000	N/A
Over 10,000 gallons	N/A	4,2500	N/A
First 3,000 gallons	N/A	N/A	\$ 2,9400
3,001 to 10,000 gallons	N/A	N/A	4,1500
Over 10,000 gallons	N/A	N/A	5,2800
5/8" x 3/4" Meter (Commercial, Industrial, Irrigation)			
All Gallons	\$ 4,0000	N/A	N/A
First 10,000 gallons	N/A	3,7500	N/A
Over 10,000 gallons	N/A	4,0000	N/A
First 10,000 gallons	N/A	N/A	4,1500
Over 10,000 gallons	N/A	N/A	5,2800
3/4" Meter (Residential)			
All Gallons	4,0000	N/A	N/A
First 4,000 gallons	N/A	\$ 3,7500	N/A
4,001 to 10,000 gallons	N/A	4,0000	N/A
Over 10,000 gallons	N/A	4,2500	N/A
First 3,000 gallons	N/A	N/A	2,9400
3,001 to 10,000 gallons	N/A	N/A	4,1500
Over 10,000 gallons	N/A	N/A	5,2800
3/4" Meter (Commercial, Industrial, Irrigation)			
All Gallons	4,0000	N/A	N/A
First 10,000 gallons	N/A	3,7500	N/A
Over 10,000 gallons	N/A	4,0000	N/A
First 10,000 gallons	N/A	N/A	4,1500
Over 10,000 gallons	N/A	N/A	5,2800
1" Meter (All Classes Including Standpipe and Construction)			
All Gallons	4,0000	N/A	N/A
First 25,000 gallons	N/A	4,0000	N/A
Over 25,000 gallons	N/A	4,2500	N/A
First 22,000 gallons	N/A	N/A	4,1500
Over 22,000 gallons	N/A	N/A	5,2800
1 1/2" Meter (All Classes Including Standpipe and Construction)			
All Gallons	4,0000	N/A	N/A
First 50,000 gallons	N/A	4,0000	N/A
Over 50,000 gallons	N/A	4,2500	N/A
First 50,000 gallons	N/A	N/A	4,1500
Over 50,000 gallons	N/A	N/A	5,2800
2" Meter (All Classes Including Standpipe and Construction)			
All Gallons	4,0000	N/A	N/A
First 80,000 gallons	N/A	4,0000	N/A
Over 80,000 gallons	N/A	4,2500	N/A
First 80,000 gallons	N/A	N/A	4,1500
Over 80,000 gallons	N/A	N/A	5,2800
3" Meter (All Classes Including Standpipe and Construction)			
All Gallons	4,0000	N/A	N/A
First 150,000 gallons	N/A	4,0000	N/A
Over 150,000 gallons	N/A	4,2500	N/A
First 150,000 gallons	N/A	N/A	4,1500
Over 150,000 gallons	N/A	N/A	5,2800
4" Meter (All Classes Including Standpipe and Construction)			
All Gallons	4,0000	N/A	N/A
First 250,000 gallons	N/A	4,0000	N/A
Over 250,000 gallons	N/A	4,2500	N/A
First 250,000 gallons	N/A	N/A	4,1500
Over 250,000 gallons	N/A	N/A	5,2800
6" Meter (All Classes Except Standpipe and Construction)			
All Gallons	4,0000	N/A	N/A
First 500,000 gallons	N/A	4,0000	N/A
Over 500,000 gallons	N/A	4,2500	N/A
First 500,000 gallons	N/A	N/A	4,1500
Over 500,000 gallons	N/A	N/A	5,2800

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended December 31, 2011

Rate Design

Settlement Schedule JMM-18
Page 2 of 2

8" Meter (All Classes Except Standalone and Construction)			
All Gallons	4,000	N/A	N/A
First 720,000 gallons	N/A	N/A	4,1500
Over 720,000 gallons	N/A	N/A	5,2800
10" Meter (All Classes Except Standalone and Construction)			
All Gallons	4,000	N/A	N/A
First 1,035,000 gallons	N/A	N/A	4,1500
Over 1,035,000 gallons	N/A	N/A	5,2800
12" Meter (All Classes Except Standalone and Construction)			
All Gallons	4,000	N/A	N/A
First 1,035,000 gallons	N/A	N/A	4,1500
Over 1,035,000 gallons	N/A	N/A	5,2800
Construction/Standalone			
All Gallons	4,000	4,2500	5,2800
CAP Recovery Surcharge (per 1,000 gallons)	0.3200	N/A	N/A
CAP Water Surcharge (per 1,000 gallons)	N/A	See Testimony	See Testimony
Other Service Charges			
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 50.00	Remove from Tariff	Remove from Tariff
Reestablishment (within 12 months)	(a)	(a)	(a)
Reestablishment (within 12 months after hours)	(b)	Remove from Tariff	Remove from Tariff
Reconnection (Delinquent)	\$ 30.00	\$ 30.00	\$ 30.00
Reconnection (Delinquent) - After Hours	\$ 30.00	\$ 30.00	\$ 30.00
Meter Test (if correct)	\$ 20.00	\$ 20.00	\$ 20.00
Deposit	(c)	(c)	(c)
Deposit Interest	(c)	(c)	(c)
NSF Check	\$ 25.00	\$ 25.00	\$ 25.00
Deferred Payment (per month)	1.5% per month	1.5% per month	1.5% per month
Late Payment Fee (per month)	1.5% per month	1.5% per month	1.5% per month
Moving Customer Meter (Customer Request)	At Cost	At Cost	At Cost
Illegal Hook-up	(d)	(d)	(d)
Transfer Fee	\$ 25.00	\$ 25.00	\$ 25.00
After Hour Service Charge (at customers request)	N/A	\$ 50.00	\$ 50.00

(a) Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).
(b) Number of months off the system times the monthly minimum per A.A.C.
(c) Per Rule R14-2-403(B).
(d) Estimated billings from the time illegal connection was made to date.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise fee. Per commission rule 14-2-406D(5).

Service and Meter Installation Charges

Service Size	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Installation Charge	Total Recommended Charge
5/8 x 3/4 inch	\$ 400.00	\$ 445.00	\$ 305.00	\$ 750.00	\$ 445.00	\$ 305.00	\$ 750.00
3/4 inch	\$ 440.00	\$ 445.00	\$ 405.00	\$ 850.00	\$ 445.00	\$ 405.00	\$ 850.00
1 inch	\$ 500.00	\$ 495.00	\$ 465.00	\$ 860.00	\$ 495.00	\$ 465.00	\$ 860.00
1 1/2 inch	\$ 675.00	\$ 550.00	\$ 675.00	\$ 1,225.00	\$ 550.00	\$ 675.00	\$ 1,225.00
2 inch Turbo	N/A	\$ 830.00	\$ 1,195.00	\$ 2,025.00	\$ 830.00	\$ 1,195.00	\$ 2,025.00
2 inch Compound	\$ 1,660.00	\$ 830.00	\$ 2,040.00	\$ 2,670.00	\$ 830.00	\$ 2,040.00	\$ 2,670.00
3 inch Turbo	N/A	\$ 1,045.00	\$ 1,820.00	\$ 2,865.00	\$ 1,045.00	\$ 1,820.00	\$ 2,865.00
3 inch Compound	\$ 2,150.00	\$ 1,165.00	\$ 2,804.00	\$ 3,769.00	\$ 1,165.00	\$ 2,804.00	\$ 3,769.00
4 inch Turbo	N/A	\$ 1,490.00	\$ 2,820.00	\$ 4,310.00	\$ 1,490.00	\$ 2,820.00	\$ 4,310.00
4 inch Compound	\$ 3,135.00	\$ 1,670.00	\$ 3,795.00	\$ 5,465.00	\$ 1,670.00	\$ 3,795.00	\$ 5,465.00
6 inch Turbo	N/A	\$ 2,210.00	\$ 5,175.00	\$ 7,385.00	\$ 2,210.00	\$ 5,175.00	\$ 7,385.00
6 inch Compound	\$ 6,190.00	\$ 2,330.00	\$ 7,070.00	\$ 9,400.00	\$ 2,330.00	\$ 7,070.00	\$ 9,400.00

Vail Water Company
Docket No. W-01651B-12-0339
Test Year Ended: December 31, 2011

Settlement Schedule JMM-19

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	6,720	\$ 40.06	\$ 40.58	\$ 0.52	1.30%
Median Usage	5,500	35.18	35.70	\$ 0.52	1.48%
Staff Recommended					
Average Usage	6,720	\$ 40.06	\$ 38.96	\$ (1.10)	-2.75%
Median Usage	5,500	35.18	33.90	\$ (1.29)	-3.65%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 13.18	\$ 14.70	11.53%	\$ 14.70	11.53%
1,000	17.18	18.45	7.39%	17.64	2.68%
2,000	21.18	22.20	4.82%	20.58	-2.83%
3,000	25.18	25.95	3.06%	23.52	-6.59%
4,000	29.18	29.70	1.78%	27.67	-5.17%
5,000	33.18	33.70	1.57%	31.82	-4.10%
6,000	37.18	37.70	1.40%	35.97	-3.25%
7,000	41.18	41.70	1.26%	40.12	-2.57%
8,000	45.18	45.70	1.15%	44.27	-2.01%
9,000	49.18	49.70	1.06%	48.42	-1.55%
10,000	53.18	53.70	0.98%	52.57	-1.15%
11,000	57.18	57.95	1.35%	57.85	1.17%
12,000	61.18	62.20	1.67%	63.13	3.19%
13,000	65.18	66.45	1.95%	68.41	4.96%
14,000	69.18	70.70	2.20%	73.69	6.52%
15,000	73.18	74.95	2.42%	78.97	7.91%
16,000	77.18	79.20	2.62%	84.25	9.16%
17,000	81.18	83.45	2.80%	89.53	10.29%
18,000	85.18	87.70	2.96%	94.81	11.31%
19,000	89.18	91.95	3.11%	100.09	12.23%
20,000	93.18	96.20	3.24%	105.37	13.08%
25,000	113.18	117.45	3.77%	131.77	16.43%
30,000	133.18	138.70	4.14%	158.17	18.76%
35,000	153.18	159.95	4.42%	184.57	20.49%
40,000	173.18	181.20	4.63%	210.97	21.82%
45,000	193.18	202.45	4.80%	237.37	22.88%
50,000	213.18	223.70	4.93%	263.77	23.73%
75,000	313.18	329.95	5.35%	395.77	26.37%
100,000	413.18	436.20	5.57%	527.77	27.73%

AMENDED
PLAN
OF
ADMINISTRATION

Arizona Corporation Commission
Docket No. W-01651B-12-0339

Proposed Plan of Administration
CAP Surcharge

CAP Surcharge and Long-Term Storage Credit Balance Plan of Administration

This Plan of Administration ("POA") relates to the administration of Vail Water Company's ("Vail" or the "Company") CAP Surcharge and Long-Term Storage Balance. The purpose of the POA is to describe how Vail will administer its CAP Surcharge and Long-Term Storage Balance if approved by the Arizona Corporation Commission in Docket No. W-01651B-12-0339.

I. Overview

Vail is a public service corporation providing water utility service in Pima County, Arizona pursuant to a Certificate of Convenience and Necessity granted by the Arizona Corporation Commission. As described in Decision Nos. 62450 and 73218, Vail is currently pursuing a CAP project that will allow for the direct delivery of CAP water in Vail's service territory.

II. General Description - Surcharge

The purpose of the CAP surcharge mechanism is to recover the costs of CAP water and delivery of CAP water to the Company's service territory not included in base rates once the CAP project is complete and water is being delivered. Under the Company's proposed CAP surcharge mechanism, the Company would be required to make a separate filing for Commission consideration before the first surcharge becomes effective. The Company shall file its first surcharge request prior to taking delivery of CAP water through the CAP project. The amount of the initial surcharge will be determined and submitted for approval by the Commission. The CAP surcharge will be based on gallons sold similar to a commodity rate. The CAP surcharge will appear on customers' bills as a separate line item labeled "CAP Water Surcharge." Thereafter, the Company shall make annual filings prior to the anniversary of the effective date of the initial CAP surcharge.

III. Components of CAP Surcharge

The CAP surcharge will include the following components as further described in Exhibit 1:

- Component 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges included in Base Rates - This component is based upon variances between the combined CAP M&I capital and CAP delivery charges in effect for the applicable year and the combined amount of those rates (\$105.87 per acre-foot) included in base rates.

- Component 2 - Tucson Water Wheeling Fees – This component is based upon the fees set forth in the final Wheeling Agreement between Vail and Tucson Water and the volume of water delivered to Vail's service territory as defined by the Wheeling Agreement.
- Component 3 - Periodic Unrecovered Recharge Credits – This component applies the rate variance calculated in Component 1 to any excess of the total CAP allocation (in acre-feet) over the total water wheeled to customers. It is an asset that represents the CAP costs included in long term storage credits reserved for future use.
- Component 4 - Prior Year Under/(Over) Recovery – This component represents the under/(over) recovery of the prior year's costs through the surcharge.
- Component 5 - Long Term Storage Credit Recovery – This component reflects the value of Long Term Storage Credits to be recovered from ratepayers and used to offset CAGR fees. The amount for recovery from ratepayers is calculated using average inventory cost. Vail will provide documentation to support these amounts.
- Component 6 - Gain on Sale of Long Term Storage Credits – This component reflects the customers' share (50 percent) of any profit resulting from the sale of Long Term Storage Credits to third parties.
- Component 7 - Excess Water Loss Disallowance – This component is a disallowance of charges based on unaccounted for water loss in Vail's system in excess of 10 percent. If Vail's unaccounted for water loss for the 12 months prior to the date of filing for a new surcharge exceeds 10 percent, the total amounts of the other components will be reduced by the percentage the unaccounted for water loss is in excess of 10 percent.

IV. Calculation of the CAP Surcharge

Once the total of the component costs have been determined, the CAP surcharge (per 1,000 gallons) will be calculated by dividing the total costs by the prior year's gallons sold (in 1,000s). An illustrative exhibit is attached as Exhibit 1 showing the components of the calculation.

The Company will track the surcharge collections during the year and identify any under/(over) recovery. Any under/(over) recovery of the prior year's surcharge will be considered in the subsequent year's computation of the surcharge.

V. CAP Long-Term Storage Balance

The Company will maintain a CAP long-term storage balance. The balance will be calculated beginning with the \$1,081,028 amount adopted as a component of rate base and reflect additions for CAP M&I capital and CAP delivery charges incurred in the period beginning January 1, 2012, and ending the day before rates become effective in this case and

Periodic Unrecovered Recharge Credits (Component 3) and deductions for Long-Term Storage Credit Recovery (Component 5) and Total Cost of Long-Term Storage Credits Sold (Exhibit 1, Line 22).

VI. Reporting

The Company shall file its first surcharge request prior to taking delivery of CAP water through the CAP project.

On or before February 1st of each year thereafter Vail will submit to the Commission as a compliance item an annual report showing its collections under the CAP Surcharge that includes a calculation of any under/(over) recovery and a calculation of the CAP Long-Term Storage Balance with detail showing each component's contribution to the change in balance from the prior year.

VII. CAP Surcharge Implementation

Vail will submit annually a schedule showing the computation of each year's surcharge along with supporting documentation of the underlying costs. Except for the first year, which may be a partial year, each surcharge shall remain in effect for a period of 12 months. The first surcharge calculation shall require Commission approval prior to going into effect. Thereafter, each surcharge shall be approved administratively by Commission Staff and shall become effective on April 1st, unless Commission Staff files an objection to such surcharge calculation prior to April 1st. Notwithstanding the foregoing, if any annual surcharge proposed by Vail represents an increase greater than \$1.00 per 1,000 gallons over the CAP surcharge then in effect, such surcharge shall require Commission approval prior to going into effect.

Vail Water Company
CAP Surcharge Mechanism
Example Computation of CAP Surcharge (Year 1)

Exhibit 1
Page 1 of 2

Component 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges included in Base Rates

[1]	CAP Allocation (a.f.)	1,857
[2]	CAP M&I Capital and Delivery Charges (per a.f.) using base year (test year CAP rate)	\$ 105.87
[3]	CAP M&I Capital and Delivery Charges (per a.f.) using next year's firm rate	\$ 144.00
[4]	CAP Rate Increase (decrease) [3]-[2]	\$ 38.13
[5]	Total CAP M&I Capital and Delivery Charges Increase(decrease) [4]x[5]	\$ 70,807

Component 2 - Tucson Water Wheeling Fees

[6]	CAP Water Delivered to Vail Service Territory (a.f.)	1,100
[7]	Wheeling fee (per a.f.)	\$ 650.00
[8]	Total Wheeling Fees	\$ 715,000

Component 3 - Periodic Unrecovered Recharge Credits

[9]	CAP Water Recharged (a.f.) [1]-[6]	757
[10]	CAP Rate Increase (per a.f.) = [4]	\$ 38.13
[11]	Total Recharge Credits for Future Use [9]x[10]	\$ (28,864)

Component 4 - Prior Year Under/(Over) Recovery (Not applicable in Year 1)

[12]	Total amount to be recovered via surcharge =[38] from prior year calc	\$ -
[13]	Gallons sold in previous 12 months (in 1,000s) (provide support)	-
[14]	Prior year surcharge rate (per 1,000 gallons) = [40] from prior year	\$ -
[15]	Amounts recovered via surcharge [13]x[14]	\$ -
[16]	Prior Year Under (Over) recovery [12]-[15]	\$ -

Component 5 - Long-Term Storage Credit Recovery

[17]	Long-term Storage Credits Used (a.f.) (provide support)	100
[18]	Average Cost (provide support)	\$ 125
[19]	Total Cost [17]x[18]	\$ 12,500

Component 6 - Gain on Sale of Long-Term Storage Credits

[20]	Long-term Storage Credits Sold (a.f.) (provide support)	100
[21]	Average Cost per a.f. (provide support)	\$ 125
[22]	Total Cost of Long-term Storage Credits Sold [20]x[21]	\$ 15,625
[23]	Total Sales of Long-term Storage Credits	\$ 15,625
[24]	Gain on Sale of Storage Credits [23]-[22]	\$ -
[25]	Shared with Ratepayers (%)	50.00%
[26]	Credit for Rate Payer's Share of Gain [24]x[25]x(-1)	\$ -

Component 7 - Excess Water Loss Disallowance

[27]	Gallons Sold in Prior Year (in 1,000's) (provide support)	344,500
[28]	Accounted for Water Not Sold (in 1,000's) (provide support)	10,000
[29]	Total Gallons Sold and Accounted For (in 1,000's) [27] + [28]	354,500
[30]	Total Gallons Allowed (in 1,000s) [29]/0.90	393,889
[31]	Gallons Pumped in Prior Year (in 1,000's) (provide support)	420,000
[32]	Water Loss (in 1,000's) [31] - [30]	26,111
[33]	Percent Water Loss [32]/[31]x100	6.22%
[34]	Allowed Water Loss Percentage	10.00%
[35]	Percent Reduction in Total Costs Recovered [34]-[33] (if positive then 0%)	0.00%
[36]	Total Base Costs [5]+[8]+[11]+[16]+[19]+[26]	\$ 769,443
[37]	Water Loss Credit [35]x[36]	\$ -

Computation of Commodity Surcharge

[38]	Total Net Costs to be Recovered [36]+[37]	\$ 769,443
[39]	Gallons sold in prior year (in 1,000's)	340,000
[40]	Cost per 1,000 gallons [38]/[39]	\$ 2.26

Vail Water Company
CAP Surcharge Mechanism
Example Computation of CAP Surcharge (Year 2)

Exhibit 1
Page 2 of 2

Component 1 - Variance from Combined CAP M&I Capital and CAP Delivery Charges included in Base Rates

[1]	CAP Allocation (a.f.)	1,857
[2]	CAP M&I Capital and Delivery Charges (per a.f.) using base year (test year CAP rate)	\$ 105.87
[3]	CAP M&I Capital and Delivery Charges (per a.f.) using next year's firm rate	\$ 154.00
[4]	CAP Rate Increase (decrease) [3]-[2]	\$ 48.13
[5]	Total CAP M&I Capital and Delivery Charges Increase(decrease) [4]x[5]	\$ 89,377

Component 2 - Tucson Water Wheeling Fees

[6]	CAP Water Delivered to Vail Service Territory (a.f.)	1,300
[7]	Wheeling fee (per a.f.)	\$ 650.00
[8]	Total Wheeling Fees	\$ 845,000

Component 3 - Periodic Unrecovered Recharge Credits

[9]	CAP Water Recharged (a.f.) [1]-[6]	557
[10]	CAP Rate Increase (per a.f.) = [4]	\$ 48.13
[11]	Total Recharge Credits for Future Use [9]x[10]	\$ (26,808)

Component 4 - Prior Year Under/(Over) Recovery

[12]	Total amount to be recovered via surcharge = [38] from prior year calc	\$ 769,443
[13]	Gallons sold in previous 12 months (in 1,000s) (provide support)	352,000
[14]	Prior year surcharge rate (per 1,000 gallons) = [40] from prior year	\$ 2.26
[15]	Amounts recovered via surcharge [13]x[14]	\$ 796,600
[16]	Prior Year Under (Over) recovery [12]-[15]	\$ (27,157)

Component 5 - Long-Term Storage Credit Recovery

[17]	Long-term Storage Credits Used (a.f.) (provide support)	100
[18]	Average Cost (provide support)	\$ 125
[19]	Total Cost [17]x[18]	\$ 12,500

Component 6 - Gain on Sale of Long-Term Storage Credits

[20]	Long-term Storage Credits Sold (a.f.) (provide support)	150
[21]	Average Cost per a.f. (provide support)	\$ 125
[22]	Total Cost of Long-term Storage Credits Sold [20]x[21]	\$ 15,625
[23]	Total Sales of Long-term Storage Credits	\$ 15,625
[24]	Gain on Sale of Storage Credits [23]-[22]	\$ -
[25]	Shared with Ratepayers (%)	50.00%
[26]	Credit for Rate Payer's Share of Gain [24]x[25]x(-1)	\$ -

Component 7 - Excess Water Loss Disallowance

[27]	Gallons sold in previous 12 months (in 1,000s) (provide support)	352,000
[28]	Accounted for Water Not Sold (in 1,000's) (provide support)	10,000
[29]	Total Gallons Sold and Accounted For (in 1,000's) [27] + [28]	362,000
[30]	Total Gallons Allowed (in 1,000s) [29]/0.90	402,222
[31]	Gallons Pumped in Prior Year (in 1,000's) (provide support)	420,000
[32]	Water Loss (in 1,000's) [31] - [30]	17,778
[33]	Percent Water Loss [32]/[31]x100	4.23%
[34]	Allowed Water Loss Percentage	10.00%
[35]	Percent Reduction in Total Costs Recovered [34]-[33] (if positive then 0%)	0.00%
[36]	Total Base Costs [5]+[8]+[11]+[16]+[19]+[26]	\$ 892,912
[37]	Water Loss Credit [35]x[36]	\$ -

Computation of Commodity Surcharge

[38]	Total Net Costs to be Recovered [36]+[37]	\$ 892,912
[39]	Gallons sold in previous 12 months (in 1,000s) = [13]	352,000
[40]	Cost per 1,000 gallons [38]/[39]	\$ 2.54